

The Clock Ticks: Sanction Iran Now

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Articles & Testimony

A version of this article appeared in German in Financial Times Deutschland under the title, "Die Uhr Tickt." The latest U.S. National Intelligence Estimate (NIE) on Iran's nuclear intentions and capabilities has been the subject of much analysis, most of which has been off point. The new estimate opens with the startling judgment that Tehran halted its nuclear weapons program in the fall of 2003, which has led some to conclude sanctions are no longer necessary. They are. Indeed, the estimate's more significant conclusion is that the most likely tool to successfully alter Iran's nuclear calculus is targeted political and economic pressure, not military action.

Iran continues to produce fissile material and the ballistic missiles needed to deploy a weapon. According to IAEA director Mohamed ElBaradei, Iran could produce a nuclear weapon in "only a few months" once it completes the fuel-cycle facilities it is building. The answer is to sanction Iran now, before it reaches this critical threshold.

That is exactly what the U.S. government did in October, even as new intelligence was shaping the soon-to-be-released NIE, when the Treasury and State Departments announced sweeping designations of Iranian entities and individuals involved in proliferation and terrorist activities. Though unilateral, the designations have effectively cut the affected parties off from the U.S. - and by extension the international -- financial system. European officials were pre-briefed on these designations, and were likely supportive. Indeed, the European Union is now debating whether or not to impose sanctions of its own targeting Iran. It should.

Publicly identified as pariahs, the illicit activities of the Iranian banks, leaders, military institutions and companies identified by the Treasury and State Departments were exposed in a fact sheet that accompanied the designations. Focused on these illicit activities, these targeted financial measures represent the strongest non-military tool available to convince Tehran to change its behavior. All those interested in averting a military confrontation with Iran must rededicate themselves to employing a robust regime of smart sanctions targeting Tehran's illicit activities.

Some advocate diplomatic engagement instead of economic sanctions, but it is a myth that policymakers have to choose between sanctions and diplomacy. In fact, these tools are best employed in a complementary fashion. Targeted sanctions should be seen not only as a means to hold Iran to task for its illicit conduct, and not only as a means of protecting the international financial system from abuse, but as a means to create leverage for diplomacy. As Under Secretary of State Nicholas Burns explained, "we are focused on diplomacy, we want to get to a diplomatic solution through negotiations, but Iran has to accept that path." Sanctions will not solve the Iran problem, but employed wisely they may create sufficient leverage for diplomacy and avoid military conflict.

And while multilateral sanctions are always preferable, targeted financial measures applied unilaterally by major economic powers and regional bodies are sufficient to successfully target Iran with painful financial sanctions. Consider, for example, that major international financial institutions throughout the world incorporate the U.S. Treasury's various designation lists into their due diligence databases, meaning that designated Iranian banks, entities and individuals find it very difficult to secure loans, lines of credit or otherwise gain access to the

international financial system. Just this week an official with Iran's Export Development Bank informed "it is no longer possible to wire money by dollar into Iran and for the payments in Euro there are just three European banks. They could stop cooperating with us at any moment."

With the multilateral UN sanctions process bogged down, it is now all that much more important that action be taken to lay the groundwork for substantive sanctions following Iran's report to the International Atomic Energy Agency next month on its past nuclear activities. French officials have already stated that if there are no new UN sanctions by the end of the year, the EU should "look at more individual kinds of sanctions." Already the EU has designated several entities above and beyond those listed in the annexes to UN Security Council resolutions 1737 and 1747. With its latest unilateral designations, the United States took similar initiative and led by example, as it did in January 2007 when it designated Bank Sepah unilaterally. The international community followed suit then, designating Sepah multilaterally several weeks later under UN Security Council Resolution 1747.

Europe should take the lead pressing the international community to do so now as well, designating at least some if not all of the banks, companies, and persons targeted by the US last month in a third UN Security Council resolution before the end of the year.

The UN channel, however, is not the only one available. Other countries and regional bodies are also considering sanctioning Iran outside the UN system, especially following the October 11 statement issued by the Financial Action Task Force (FATF)-a multilateral, expert body which works by consensus and includes Russia and China-warning that "Iran's lack of a comprehensive anti-money laundering/combating the financing of terrorism regime represents a significant vulnerability within the international financial system." If nothing else, the deceptive and illegal financial practices Iran employs to secretly fund its illicit activities should themselves be reason enough for Germany and other European economic powers to hold Iran accountable.

Whether employed multilaterally, regionally, or unilaterally, targeted financial measures of the kind the United States employed this week are the surest way to avoid military confrontation with Iran and create the necessary leverage for effective diplomacy. The EU should act now to apply its own sanctions targeting Iran and help create leverage for diplomacy. Absent this leverage, policymakers on both sides of the Atlantic will eventually be left with the unenviable choice of bombing Iran or tolerating a nuclear Iran.

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